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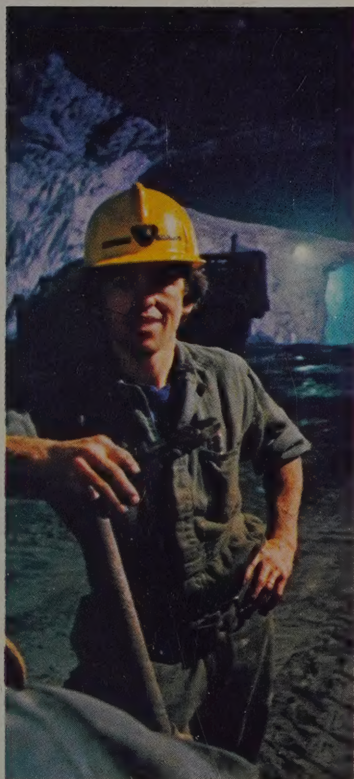
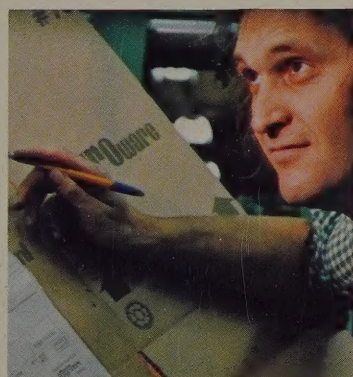
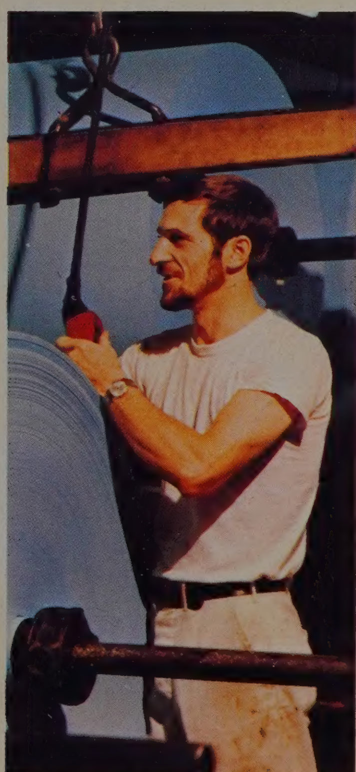
Domtar Limited

1975
Annual Report







Our cover:
The people of Domtar.
More about our people on pages 12 to 17 of this report.

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Directors and Officers

Directors

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Chairman of the Board, Canadian Tire Corporation Limited

H. Roy Crabtree, Montreal,
Chairman and President, Wabasso Limited

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President and Chief Executive Officer, Hollinger Mines Limited

Roger T. Hager, Vancouver,
Director, The Canadian Fishing Company Limited

Alex D. Hamilton, Montreal,
President and Chief Executive Officer, Domtar Limited

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Partner in the legal firm of Ogilvy, Cope, Porteous, Montgomery, Renault, Clarke & Kirkpatrick

Camille Lacroix, St. Romuald, Quebec,
President, Matapedia Company Limited

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Senior Partner in the legal firm of Létourneau, Stein, Marseille, Delisle & LaRue

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John A. McDougald, Toronto,
Chairman and President, Argus Corporation Limited

Maxwell C. G. Meighen, O.B.E., Toronto,
Chairman of the Board, Canadian General Investments Limited

Nathan Pitcairn, Jenkintown, Pa.,
Director, Pitcairn Incorporated

Arthur Ross, New York,
Vice Chairman and Managing Director, Central National Corporation

J. Thomas Timmins, Montreal,
President, Chromasco Limited

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A. L. Fairley, Jr., Chairman
Alex E. Barron
H. Roy Crabtree
Alex D. Hamilton
A. Bruce Matthews
John A. McDougald
Maxwell C. G. Meighen
Arthur Ross

Officers

Maxwell C. G. Meighen, O.B.E.,
Chairman of the Board

Alex D. Hamilton,
President and Chief Executive Officer

J. Cochran,
Vice-President

Baker Daigle,
Vice-President – Engineering, Purchasing and Transportation

W. D. Davidson,
Vice-President

A. S. Fleming,
Vice-President

S. A. Kerr,
Vice-President – Administration and Secretary

J. H. Kila,
Vice-President

W. R. Lawson,
Vice-President

R. G. Martin,
Vice-President – Industrial Relations and Human Resources

A. Monsaroff,
Vice-President

R. R. Pinard,
Vice-President

J. H. Robertson,
Vice-President

J. H. Smith,
Vice-President – Finance

G. H. Tomlinson,
Vice-President – Research and Environmental Technology

G. M. Drodge,
Controller

A. Gascon,
General Counsel and Assistant Secretary

L. A. Roberton,
Treasurer

E. G. Aust,
Assistant Treasurer

Operating Companies

Domtar Chemicals Limited
President – A. Monsaroff

Domtar Construction Materials Ltd.
President – J. Cochran

Domtar Pulp & Paper Products Ltd.
President – J. H. Robertson

Domtar Fine Papers Ltd.
Vice-President and General Manager
J. H. Kila

Domtar Newsprint Limited
Vice-President and General Manager
R. R. Pinard

Domtar Packaging Limited
Vice-President and General Manager
W. R. Lawson

Domtar Pulp Limited
Vice-President – R. R. Pinard

Domtar Woodlands Limited
Vice-President – A. S. Fleming

Head Office

395 de Maisonneuve Blvd. W.,
Montreal, Canada H3A 1L6
Telephone: (514) 282-5400

Transfer Agents

for preference and common shares:
Montreal Trust Company – Halifax, N.S.; Saint John, N.B.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man.; Regina, Sask.; Calgary, Alta.; Vancouver, B.C.

for common shares only:
The Bank of New York – New York, N.Y.

Registrars

for preference and common shares:
The Royal Trust Company – Halifax, N.S.; Saint John, N.B.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man.; Regina, Sask.; Calgary, Alta.; Vancouver, B.C.

for common shares only:
The Bank of New York – New York, N.Y.

Les actionnaires qui préféreraient recevoir leurs rapports en français voudront bien en aviser le Secrétaire de Domtar Limitée.

Highlights

	1975	1974
Sales	**$815,221,364**	$897,652,232
Income taxes – Current	**$ 11,930,000**	$ 55,575,000
Income taxes – Deferred	**$ 11,970,000**	$ 8,887,000
Net earnings	**$ 35,287,514**	$ 82,479,347
Common shares outstanding	**14,827,300**	14,827,300
Earnings per common share	**$ 2.34**	$ 5.53
Dividends per common share	**$ 1.60**	$ 1.60
Working capital	**$219,192,639**	$175,508,153
Cash flow from operations	**$ 76,311,177**	$123,563,649
Cash flow per common share	**$ 5.11**	$ 8.30
Expenditures on fixed assets	**$ 56,932,267**	$ 72,384,356
Book value per common share	**$ 22.00**	$ 21.25
Number of preference shareholders	**1,654**	1,671
Number of common shareholders	**25,815**	26,920
Number of employees	**17,637**	18,450
Payroll and Benefits	**$230,213,000**	$230,676,000

The annual meeting of Domtar Limited will be held at 4 p.m. on Tuesday, April 27, 1976 in the Chateau Champlain Hotel, Montreal.

Report of the Directors to the Shareholders

The profits of Domtar Limited for 1975 were substantially lower than the previous year's record level. This decline was mainly attributable to depressed economic conditions which severely affected the market for the Company's pulp and paper products in Canada and throughout the world. The situation was aggravated by the continuing effects of inflation on manufacturing costs and the lengthy strikes which resulted in the closing of most of the Company's primary pulp and paper mills for a substantial part of the year.

The financial results of the Company are presented in this Annual Report based on the traditional accounting principles which do not reflect the impact of inflation. In the 1974 Annual Report, the Company reported its concern about the capability of financial statements to account for price changes in the current inflationary climate. The need for a change in accounting methods has become quite evident and Domtar is researching alternative ways to reflect more properly a company's position under inflationary conditions. Details of these research activities together with a restatement of the financial results for 1975 adjusted for the effects of inflation will be found on pages 26 and 27 of this report.

Sales and Net Earnings

Sales totalled $815.2 million in 1975 compared with $897.7 million in 1974. Net earnings for the year amounted to $35.3 million or $2.34 per common share (including 20 cents per share from gains on the disposal of fixed assets) compared with $82.5 million or $5.53 per common share in 1974.

The Company and its Canadian subsidiaries are subject to controls on prices, profits, compensation and dividends instituted by the Federal government in the Anti-Inflation Act during 1975. Although there were a number of uncertainties with respect to the implementation of the program at the time of finalizing the 1975 financial statements, the Company does not consider that the ultimate impact of the program will materially affect the 1975 earnings as reported.

The decrease in cash flow was proportionately less than in net earnings. Cash flow in 1975 amounted to $76.3 million compared with $123.6 million in 1974, a reduction of only 38.3% against a drop of 57.2% in net earnings.

The following table provides an analysis of sales and earnings before income taxes and minority interest by Domtar's three main product groups for the years 1975 and 1974:

($ Millions)	1975 Sales	1975 Earnings	1974 Sales	1974 Earnings
Pulp and Paper	**$508.9**	**$ 22.7**	$622.9	$116.1
Construction Materials	**160.1**	**16.2**	144.1	14.7
Chemicals	**146.2**	**20.1**	130.7	16.8
	$815.2	**59.0**	$897.7	147.6
Gains on the disposal of fixed assets:				
Pulp and Paper		**.6**		—
Construction Materials		**1.2**		—
Chemicals		**2.0**		—
		3.8		—
Earnings before unallocated items		**62.8**		147.6
Less: Unallocated items – Corporate Income and Interest		**2.5**		(0.9)
Earnings before income taxes and minority interest		**$ 60.3**		$148.5

The relative stability of the earnings generated by the Construction Materials and Chemicals groups, despite generally poor economic conditions, is indicative of the steady contributions made by these groups over the years to the consolidated results of Domtar Limited. All companies in the Pulp and Paper group showed decreases in profit, ranging from sharp drops in Fine Papers and Packaging to more modest declines in Pulp and Newsprint.

Dividends

The existing quarterly dividend rate of 40 cents per common share was maintained consistent with the Company's policy of setting its dividend rate in relation to its earnings profile over a longer period than one year. The Company declared dividends of $1.00 per share on its preference shares during 1975.

Capital Investment Program and Related Financing

During 1975, the Company invested $56.9 million in additions to and expansions of its manufacturing and distribution facilities. These expenditures, some of which are specifically referred to in the Reports on Operations, form part of the Company's overall program to improve the cost competitiveness of its facilities, increase its productive capacity, expand its product line and improve its resource base. Because of inflationary pressures, it was considered prudent to increase the Company's long term debt to provide funds for its capital programs. A $50 million issue of 20 year 11% Sinking Fund Debentures was successfully sold on August 1, 1975.

The issue of these additional debentures, less the $8 million of repayments in respect of sinking fund obligations under previous issues, resulted in the Company's total funded debt aggregating $150.1 million at December 31, 1975, a net increase of $42 million during the year.

Source and Use of Funds

As summarized below, the Company's net cash position improved considerably during the year despite the unfavourable earnings performance. The decline in cash flow from operations was more than offset by the decrease in overall working capital demands. This situation is in marked contrast to that which prevailed in 1974 and a comparison of the two years points up the tremendous impact of working capital changes on cash resources.

Summary Statement of Source and Use of Funds for the year ended December 31.

	($ Millions)	
	1975	1974
Source		
Cash flow from operations	**$ 76.3**	$123.6
Working capital, excluding income and other taxes and dividends payable	**33.0**	(50.2)
	109.3	73.4
Issue of funded debt	**49.0**	—
Sale of investments	**10.4**	8.6
	168.7	82.0
Use		
Fixed assets	**56.9**	72.4
Net decrease (increase) in income and other taxes payable	**35.8**	(21.6)
Funded debt	**8.0**	7.1
Dividends on common and preference shares	**24.3**	24.3
Other	**2.8**	7.5
	127.8	89.7
Increase (decrease) in net cash position	**40.9**	(7.7)
Net cash position at beginning of year	**38.1**	45.8
Net cash position at end of year	**$ 79.0**	$ 38.1

Return on Investment of the Common Shareholders

As a result of the decline in the Company's earnings for 1975, the return on investment of the common shareholders amounted to 10.7% in 1975 compared to 26% in 1974. Applying price level inflation accounting concepts, which more accurately reflect the relationship of earnings to the current value of the assets utilized to achieve such earnings, reduces this return to 4.3% for 1975 and 17% for 1974.

Working Capital

The working capital position continues to be satisfactory. During 1974, the Company was required to increase its operating working capital (trade receivables, inventories, prepaid expenses and trade accounts payable) by $50.2 million to finance its near capacity level of operations.

The significant drop in pulp and paper sales and manufacturing activity during the latter part of 1975, which resulted in lower earnings for the year, decreased the amount of working capital required to finance those operations and was the major cause of the overall reduction of $33 million in the Company's total operating working capital during 1975. This situation is temporary in nature as, upon return to higher levels of operations, the requirement to finance the normal levels of inventory and accounts receivable will be substantial. Total 1976 working capital requirements will likely surpass previous levels due to the continuing impact of inflation on costs and selling prices.

Income and other taxes payable at December 31, 1975 totalled $6.2 million, a decrease of $35.8 million resulting from the substantial reduction in the Company's earnings and related income tax liability. The net cash position amounted to $79 million at December 31, 1975, an increase of $40.9 million over that at the end of 1974.

Investments and Advances

A number of changes were made in the Company's investments and advances, reducing such holdings by $4.8 million during 1975. Their net effect on the Company's earnings was negligible.

Pollution Abatement

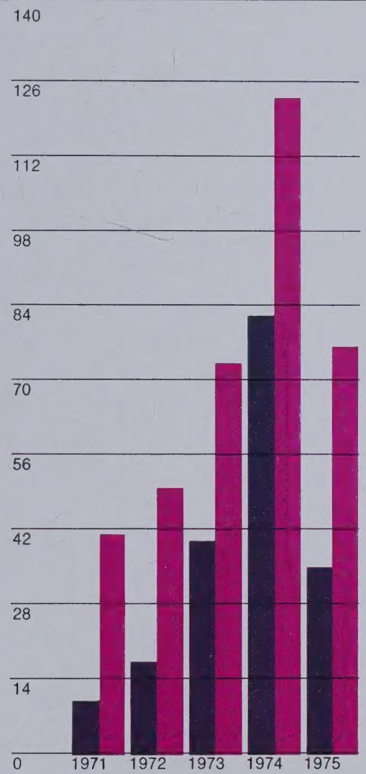
The Company vigorously pursued its programs to minimize the potentially harmful effects of its operations on the environment. Several of the major projects are briefly described in the Reports on Operations. One such program aimed at curbing mercury emissions at the Company's chemical plant at Lebel-sur-Quevillon, Quebec, deserves fuller comment in view of misleading news media reports. The plant, which was built in 1967, uses inorganic mercury in its chlor-alkali production process. The Company shares the public concern that plants such as Quevillon could contribute to the concentration of mercury in the surrounding environment. Since 1970, when the potential environmental hazard of inorganic mercury from chemical plant emissions was discovered, Domtar has been involved in studies to reduce and eventually eliminate mercury losses. Government regulations are being fully met.

A number of Federal and Provincial government studies are currently under way to determine the origin and potential effects of mercury on the environment of Northwestern Quebec. The Company is co-operating fully with all these studies.

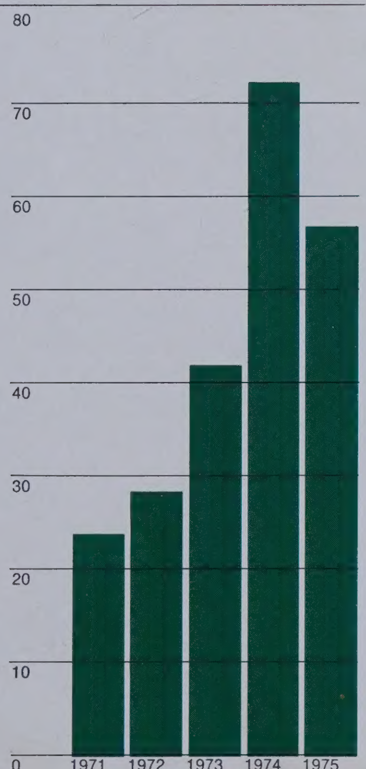
Domtar has a long term commitment to the Quevillon area and would not consciously jeopardize the health of its employees, the residents of the Town of Quevillon or the people of the surrounding area. Further research and work on the problem will remain a corporate priority in the months ahead.

Net Earnings*
and
Cash Flow
(millions of dollars)
*before extraordinary items in 1971 and 1972

Net Earnings
Cash Flow



Capital
Expenditures
(millions of dollars)



Accident Prevention

Domtar's safety record has remained generally above average compared to other companies in the industrial sectors in which it operates. Some Company operations have outstanding safety records. However, the increasing frequency of accidents in the Company's work locations over the past few years is a matter of some concern and the application of safety programs is being intensified.

Languages of Work

Domtar has had a language policy since 1969 but recent legislation in Canada and particularly in Quebec prompted the Company to review this policy during 1975. The Company's objective is to abide by the spirit and intent of the legislation while continuing to treat all employees fairly and maintain the Company's business effectiveness.

The revised policy and associated programs are directed towards identifying the language requirements of positions and assisting employees in achieving the level of skill required.

The policy and programs will apply throughout the Company's operations. However, as the Company is headquartered in Montreal, most of the positions requiring the use of English and French will be in the Province of Quebec and it is expected that the number of such positions at Head Office will increase in the future.

Public Affairs

Donations to registered Canadian charitable organizations amounted to $343,000 in 1975. Of this amount, 57% was directed to the support of health and welfare organizations, 33% to educational institutions, 7% to community and civic causes and 3% to culture. Contributions to political parties in Canada totalled $26,500.

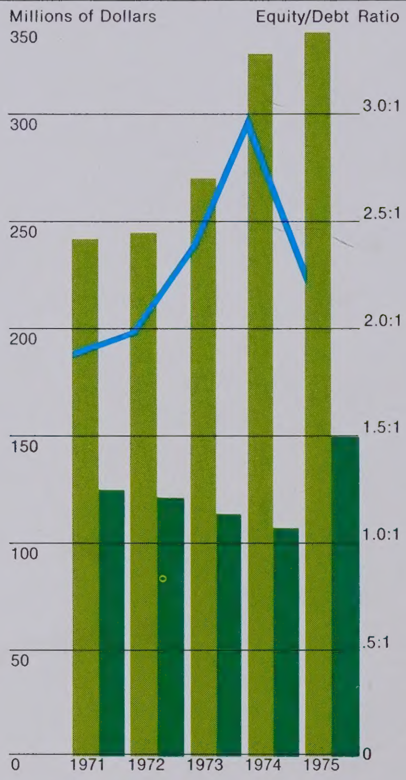
A brief was submitted by the Company to the Royal Commission on Corporate Concentration. Central to the submission is the Company's belief that the privately owned corporation is the most efficient and rewarding agency of social and economic progress yet devised and that over-zealous Government regulation is capable of reducing those advantages.

Domtar recognizes the advantages of regulation consistent with the maintenance of growth which sets the rules without restraining the play. But regulation should be confined to setting limits to undesirable consequences of growth which are clearly defined and commonly acknowledged.

If the Commission's enquiries establish undesirable consequences of corporate concentration against which adequate protection is not thought to be available, any recommendation to correct them has to be weighed against the capacity of a free society to avoid or correct them through its own collective response. In a free society, countervailing forces are still the most effective means of containing excesses by any one part of that society.

Equity/Debt Position

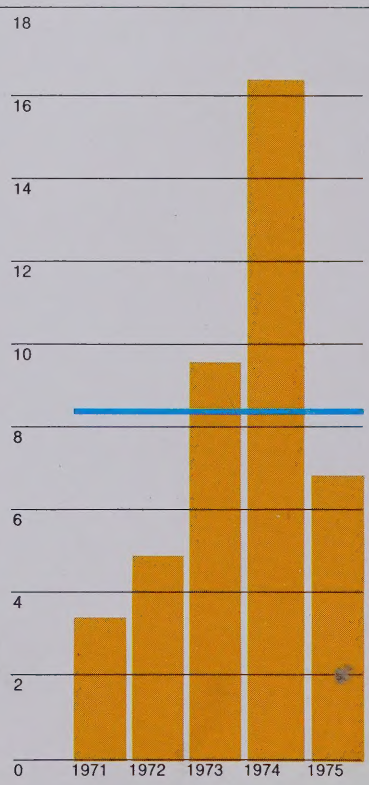
Shareholders' Equity
Funded Debt
Equity/Debt Ratio



Percentage Return After Taxes on Capital Employed
(Percent)

Net earnings (before extraordinary items) plus funded debt interest after taxes plus minority interest, as a percentage of capital employed.

Five Year Average



The Company also outlined its position concerning the recommendations of the Economic Council of Canada for liberalizing Canada's trade policies. While recognizing the desirability of freeing trade from undue restrictions on a multi-lateral basis, the Company believes that the Economic Council of Canada has taken an academic approach to a complex set of practical problems, based on outdated data on the country's industrial structure and with no real examination of alternative approaches to making the Canadian manufacturing industry more competitive.

Outlook for 1976

For companies such as Domtar trading in world markets, Canada's policies on tariffs and trade are of considerable importance. Of even greater importance to the improvement of business activity is the extent to which inflationary forces can be arrested. The Federal government has the right to expect that individuals and organizations will support their programs to abate inflation. The extraordinary program of wage, price and earnings controls will undoubtedly have a severe impact in the short term but, if it reduces inflation, it will be beneficial both to the individual citizen and to the country as a whole. The government should ensure that the application of these temporary restraints does not eliminate the flexibility required by Canadian industry to compete in world markets. It is essential that the need for industry to generate funds to renew and develop its asset base be recognized by fiscal policy in a meaningful manner. Although it is expected that the government's anti-inflationary programs will slow down the rate of inflation to some extent, it is also expected that inflationary forces will continue to put pressure on profit margins, reduce both the available capital and the effectiveness of this capital and distort the financial performance of business. On the whole, it appears that economic recovery will be comparatively modest and that, for some time yet, the Company cannot look forward to regaining the high levels of operations achieved in 1973 and 1974.

Demand for pulp and paper products should improve but only gradually and return to full operating rates in that sector is expected to be slow.

The Construction Materials company, on the other hand, can look forward to a rate of growth somewhat better than that of general economic activity and to continued earnings improvement. The Chemicals company is forecasting a satisfactory performance in 1976.

Appreciation

The Directors wish to express their appreciation for the contribution made by all those employees whose industry, loyalty and support continue to be given to the Company during a period of increasing challenge and complexity.

On behalf of the Board

Maxwell C. G. Meighen
Chairman of the Board

Alex D. Hamilton
President and Chief Executive Officer

March 8, 1976

Report on Operations

Domtar Pulp & Paper Products Ltd.

1975 was a difficult year for Domtar's forest products group. Depressed market conditions in all product areas combined with extensive strike activity resulted in an overall performance well below the results obtained in the previous year. Company sales, at $508.9 million, were 18.3% lower than in 1974 and operating profit, at $22.7 million, was down by 80.4%.

Most of the industry was faced with labor negotiations which resulted in prolonged strikes due to labor's unrealistic demands. These called for wage increases in excess of 40% for one year plus a formula to index wages upward to compensate for increases in the Consumer Price Index. This strike activity, which carried over into 1976, paralyzed much of the Canadian pulp and paper industry for varying periods up to six months. It also took its toll on Domtar's pulp and paper operations as some 4,000 employees from 11 mills and plants went out on strike, losing close to 300,000 man days of production time and thus sharply reducing operating levels, increasing costs and lowering earnings. The possibility of a significant loss of domestic markets for Company products must be recognized.

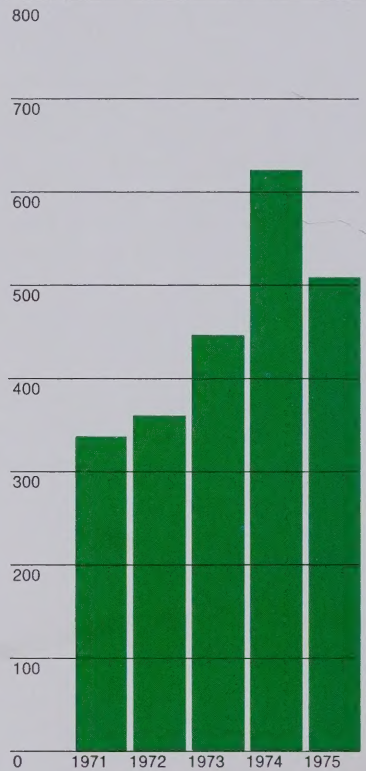
Capital expenditures in 1975 totalled $35 million. The Woodlands company invested about $12 million to increase its productivity through more modern logging equipment, improve its network of forest roads and build new camps. In addition, production capacity of the Sapawe, Ontario, lumber mill was expanded by 30% and construction of the new stud mill at Lebel-sur-Quevillon was nearly completed. Production capacity of the Quevillon stud mill is 100 million feet board measure. Progress continued on the construction of a sawmill at Dolbeau, Quebec, undertaken by Murdock-Domtar Inc., a joint venture of Murdock Lumber Inc. and Domtar.

Capital expenditures of the Fine Papers company, totalling about $7 million, were largely concentrated at the Cornwall, Ontario, mill on the modernization of the Nos. 1 and 7 paper machines. Also at Cornwall, the new Copeland fluid bed combustion unit was successfully put into operation. This unit, adapted to the recovery of chemicals from kraft liquor, increases the existing kraft recovery boiler capacity, thereby making it easier to increase pulping capacity in the future. It also contributes to the program of continued improvement of the area's ecology. The system represents such an important advance in kraft mill recovery technology that a joint venture was formed with Copeland Process Limited to commercialize such recovery systems throughout the world.

The Newsprint company undertook the reconditioning of the drives and driers of the two paper machines at Dolbeau as part of a long range plan to increase substantially the mill's output. The new thermo-mechanical pulping process at Donnacona, Quebec, with its advantages over sulphite pulping of increasing yield, lowering wood costs and reducing pollution, is being developed on a mill scale.

The Packaging company increased the production capacity of its corrugated containers plants at Montreal, Quebec, Calgary, Alberta, and St. Marys, Ontario, at a total cost of $3 million.

Pulp and Paper Products Sales
(millions of dollars)



The Pulp company's major capital project was the installation at the Lebel-sur-Quevillon mill of a new boiler capable of burning both waste wood and fuel oil. When the wood refuse burning phase is completed in 1977, the boiler will help conserve energy by reducing the mill's dependency on fuel oil and carry one step further the full use of forest resources at Quevillon.

Considerable research and development activities were undertaken in the pulp and paper sector including experimental work on the production of high quality pulp from shavings, sawdust and other low cost sources of wood fibre; studies on the use of oxygen in pulping and a number of projects related to process improvement and product development. The recycling of fibres and the improvement of pollution controls are two areas receiving continuing attention at the research and operations levels and are among the many individual research projects being carried out for Domtar's forest products companies.

An interest has been acquired in Dominion Envelope Company Limited. Located in Don Mills, Ontario, this company employs about 180 people and produces a wide range of envelopes and specialty bags.

The short term outlook indicates that 1976 will be a year of transition. Demand for pulp and paper products should improve gradually, particularly as the United States economy continues to recover. This should help reduce the high build-up of inventories which prevailed throughout 1975. Capital expenditures for 1976 are budgetted at some $45 million.

The Woodlands company plans to invest $7 million, primarily for the completion of the Murdock-Domtar sawmill and its continuing mechanization program. However, the productivity improvements introduced in wood harvesting operations are not expected to offset the effects of the rapidly escalating cost of purchasing or cutting wood fibre. The lumber market is forecast to improve somewhat in 1976. The Fine Papers company's capital expenditures could amount to about $10 million in 1976. Demand for fine papers in Canada is expected to increase only moderately but some export markets could offer greater opportunities and these will be pursued vigorously. The Newsprint company plans to invest some $10 million as part of the mill's continuing program of modernization and capacity increase at Dolbeau. The outlook for newsprint is for some improvement over 1975 with production facilities operating at levels of between 85% and 90% during the year. The Packaging company, which plans to spend $7 million primarily on capacity increases, expects moderate growth in sales volume consistent with the growth of the national economy. The Pulp company will invest about $11 million in capital projects mostly to complete the boiler project at Lebel-sur-Quevillon. Demand for pulp during 1976 is expected to improve over 1975 but this improvement will still not permit full capacity utilization before the end of the year.

The longer term prospects for the Pulp and Paper group depend on the extent and rate of economic recovery both in Canada and the United States as well as the extent of other constraints facing the business. One such constraint is the increasing involvement by governments in the control and pricing of raw materials for natural resource industries. An example of this trend is the Quebec government's Bill 27 for the revocation of timber limits which opens the way for the government to control the allocation of all wood fibre and could result in the elimination of real price competition. As the world's economies recover, markets for pulp, newsprint, fine papers and packaging should improve but the return to the full operation of our production facilities is likely to be a slow process.

Principal Products:

Domtar Fine Papers Ltd. – Uncoated and coated fine papers for the printing, business and converter trades as well as specialty papers such as diazo base, glassine, greaseproof and carbonizing.

Domtar Newsprint Limited – Standard newsprint; groundwood specialty and coated publication grade papers.

Domtar Packaging Limited – Linerboard, corrugating medium, kraft papers and boxboards for conversion; corrugated shipping containers; packaging and wrapping papers for the consumer trades; grocery and other paper bags; towelling and tissue products; disposable diapers; fibre cans and tubes.

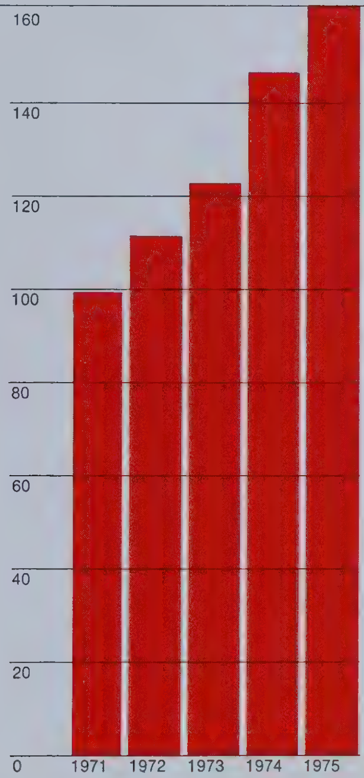
Domtar Pulp Limited – Bleached and unbleached softwood and hardwood sulphate pulp; semi-bleached softwood sulphate pulp; unbleached sulphite pulp.

Domtar Woodlands Limited – Green and kiln dried spruce and pine dimension lumber and studs.

Report on Operations

Domtar Construction Materials Ltd.

Construction Materials Sales
(millions of dollars)



The company's performance in 1975 was good, particularly if the unusual constraints it faced throughout the year are taken into consideration. Sales, at $160.1 million, were 11.1% higher than in the previous year. Expressed in unit volume, however, sales of many product lines, heavily oriented towards residential building, were actually below 1974 levels reflecting the overall decline in the country's residential construction expenditures. Offsetting this to some degree, several product lines benefitted from the strong commercial and industrial construction markets. Operating profit, at $16.2 million, was 10.2% above the level achieved a year earlier.

Escalating energy costs, inflationary wage settlements and the abnormal demand fluctuations created by the dramatic turnaround in housing start activity in the second half of the year represented some of the unusual conditions under which operations were carried out. From an unsustainable peak of 288,000 units, seasonally adjusted, in the first quarter of 1974, housing starts progressively declined to a low of 160,000 units in the first quarter of 1975. Housing start activity then picked up momentum progressively and reached the seasonally adjusted level of more than 280,000 units in the fourth quarter of 1975, with the annual rate for 1975 somewhat above that achieved the previous year. This encouraging reversal in the downward trend of housing starts bodes well for the future. The continued preference of Canadians for single family housing was expressed despite a large inventory of high priced newly completed and unoccupied units carried over into 1975, high mortgage interest rates and the restriction in high ratio loans. The various government assistance programs and the fact that capital gains on housing are non-taxable were undoubtedly strong stimulants as well.

The bulk of the capital investment program of $14 million during 1975 was spent on the construction of the particleboard and CLADBOARD® decorative laminate plant at Huntsville, Ontario. The balance of capital expenditures related mainly to the ongoing programs of automation, energy conservation and pollution abatement. In the research and development area, continued emphasis is being placed on the improvement in the fire resistance of several major product lines and the study of better ways to reduce or absorb noise.

The Saskatoon, Saskatchewan, fibreboard plant was closed as increased operating costs made continued operation uneconomic and it was not possible to reverse this trend. Announcement was made of the closure of the No-Co-Rode® pipe and fibre conduit department at the Cornwall, Ontario, plant and the discontinuation of these products because they were no longer competitive. Studies are underway to use the building more effectively for other operations. In both cases, assistance is available to employees through the Domtar Industrial Conversion Plan which is designed to assist individuals by exploring other employment opportunities and by retraining programs in conjunction with the Canada Manpower Centre.

The immediate outlook is optimistic with residential construction activity at the beginning of 1976 sharply above the previous year. The continued improvement in demand and more government support for housing should result in a considerable increase in residential building. The Federal Housing Action Program announced by the Honorable B. J. Danson, Minister of State for Urban Affairs, is a positive step in the direction of meeting the housing needs of Canadians for both rental accommodation and home ownership. The government's target of 235,000 housing starts in 1976 is also a source of considerable encouragement. The current shortage of rental accommodation particularly for low income groups — the one black spot in the Canadian housing picture — could be solved through this increased government involvement. Apartment construction will not be an attractive form of investment for private enterprise if rent control programs are unrealistic. Building activity in the non-residential sector should improve modestly but predictions in this area are more hazardous as some projects could be temporarily shelved because of the high cost of borrowing money and the current economic uncertainty. The longer term outlook is promising and the company will continue to pursue new market opportunities vigorously in all product lines.

Principal Products:

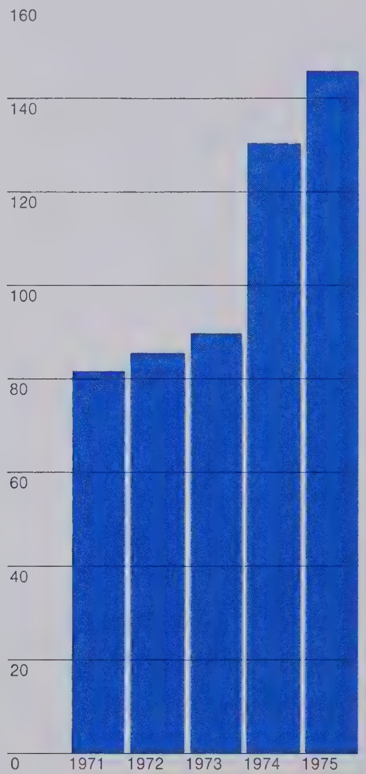
Clay brick; asphalt shingles; roll roofing and siding; roof, sheathing and panel board and CEL-U-CON® 25 non-combustible roofboard; ceiling tiles and grid panels; linear ceiling systems; partition systems; gypsum lath, plank and wallboard and wall panelling; plasters; ARBORITE® decorative and industrial plastic laminates; particleboard and CLADBOARD® decorative laminates; HAYDITE® lightweight aggregate; plastic conduit; Fiberglas® building insulation.

® Registered Trade Mark

Report on Operations

Domtar Chemicals Limited

Chemicals Sales
(millions of dollars)



Last year's report stated that sales and earnings in 1975 would exceed the levels reached in 1974 despite the almost uniformly pessimistic forecasts for the North American economy. Results conformed to expectations. Sales increased 11.9% to \$146.2 million and operating profit at \$20.1 million was up 19.6%. The influence of long strikes, our own and others, was the major negative factor and precluded attainment of the group's true potential.

The Sifto Salt division resumed its historical rate of growth and made a major contribution to the group's achievements for the year. The availability of increased capacity at the Goderich, Ontario, mine and a change in product mix at the Amherst, Nova Scotia, evaporator plant were important factors in the division's improved performance. For the third year in a row, strikes hindered operations. The Unity, Saskatchewan, evaporator plant was out of production for four months and the Goderich plant was closed for more than six months. Reduced demand from the pulp and paper and plastics industries in the United States adversely affected the Cote Blanche, Louisiana, mine. On the positive side, sales of ice control salt in Canada and the United States increased. Capital projects for the year included completion of the Unity plant expansion, productivity improvements at the Cote Blanche mine and the start of major equipment installations at the Goderich mine designed to control cost escalation. Assuming peaceful resolution of labor problems in 1976, sales and profits in the coming year are expected to be maintained.

Sales and profits of the Lime division were below 1974 levels due to reduced activity in the United States steel industry, the slowdown and numerous strike-induced closures in the Canadian pulp and paper industry and a strike in the division's largest plant. On October 1, 1975 a lime plant was acquired in Bellefonte, Pennsylvania. It is strategically located to supply industrial markets in the States of Pennsylvania, New York and Ohio. This plant will enhance our ability to serve markets previously developed by exports from Joliette, Quebec, and Beachville, Ontario, which are expected to continue. Markets for lime products in the sewage treatment field continue to grow and research in this area is expected to increase them. A reasonably optimistic forecast for 1976, followed by substantial growth in subsequent years, is the current outlook for the Lime division.

Results of the Wood Preserving division improved significantly in 1975 in the face of the general economic slowdown and increased competition from the United States. The continuation of significant expenditures in product development and research, combined with a management reorganization instituted during the past year, are expected to improve results in 1976 and lead to a more diversified product line.

Operations of the Tar & Chemical division were severely affected by strikes, and sales and profits were substantially below the levels reached in 1974. Markets for coal tar products were buoyant during the first half of the year but reduced activity in the second half, particularly in the aluminum industry, softened demand. In 1976, market demand is likely to improve gradually and results of this division for the year as a whole will be much better than in 1975 but not up to the level reached in 1974.

The Metal Powders division operated below capacity during the first half of the year, due largely to the reduced requirements of the automotive industry in the United States. The improvement in the second half helped maintain overall profitability in 1975 close to the previous year's level. The outlook for 1976 is optimistic.

Chemical Developments of Canada Limited was adversely affected by the general business slowdown in 1975 and strikes in customers' plants. However, demand for some consumer products was well sustained and helped to maintain sales and profits at reasonable levels. A modest improvement in results is expected for 1976.

On the assumption that some real growth in the North American economy will occur in 1976 and the incidence of strikes and general labor unrest will abate, the outlook for the Chemicals company for the coming year is favorable. The increase in capacity resulting from the \$27 million capital investment program undertaken during the past three years gives the company the means of satisfying stronger market demand. It is expected that sales will increase by 10% and earnings will approximate the 1975 level.

Principal Products:

SIFTO® salt; pressure treated and fire retardant wood; coal tar pitches and acids; creosote; naphthalene and phthalic anhydride; limestone; hydrated lime and quicklime; iron alloy powders; synthetic detergents; wetting agents; carboxymethylcellulose; dyestuffs and pigments.

® Registered Trade Mark

people plus

A widely diversified company such as Domtar calls upon many varied and valued human resources. These include skilled management and professional people from diverse fields as well as experienced technicians and craftsmen engaged in papermaking, mining, chemical production or general manufacturing. The following pages are a tribute to all the employees who help ensure the continued success of the Company in a challenging economic period. We have been able to select only a very few of the thousands of employees across the Company, the skills they represent and the careers they enjoy. Through them, all our people are honored.

The Company's international reputation for quality of products and services depends on the skills and contributions of its people. Its reputation in the communities where it operates is based to a large extent on the participation of its people in community and civic affairs. Its reputation as an employer depends on the working conditions and career opportunities it provides. Here are some of the people who help to build the reputation of Domtar.

Armand Lanctot has worked at the brick plant operated by the Construction Materials company at Laprairie, Quebec, for 30 years. He was part of the crew which built the first tunnel kiln at the plant nearly 20 years ago.

To assist employees in achieving the level of language skills required of their positions, French and English language courses are made available both on Company premises and in outside language schools. The picture shows a language training session in progress.

Leslie C. Young, a skilled mixer operator with 23 years service with the Company, plays a key role in the production of quality wallboard at the gypsum products plant at Caledonia, Ontario.

Paula M. Theoret, in charge of the travel ledger in the Corporate Controller's department, is well known in the Company's Head Office.

Ron Neufeld (top) and Rolly Hebert (bottom) are two of the more than 150 professional and technical people at the Research Centre in Senneville, Quebec, who are engaged in developing new and improved products, better methods of processing materials, and in protecting the environment. Ron, a microbiologist, is involved in a study of the toxicity of mill effluents and Rolly is a technical specialist in the analytical laboratory. Through such scientific expertise as theirs, many of the Company's processes and products have, over the years, gained world-wide recognition.

Human Resources Counsellor Eric Jacques (left) in discussion with Roger Roussel, sales representative with the Construction Materials company, at a management development course. More than 1150 managers took part in the 71 training programs operated by the Domtar Management School in 1975.

Maurice Gagne operates a pulpwood forwarder in the East Angus, Quebec, Woodlands operations. Continued emphasis on mechanization helps improve the productivity of wood harvesting operations.

John Angus MacInnis repairs and maintains the heavy equipment used in the underground mining of salt at Goderich, Ontario. The mine, operated by the Sifto® Salt division of Domtar Chemicals, is one of the largest in North America.

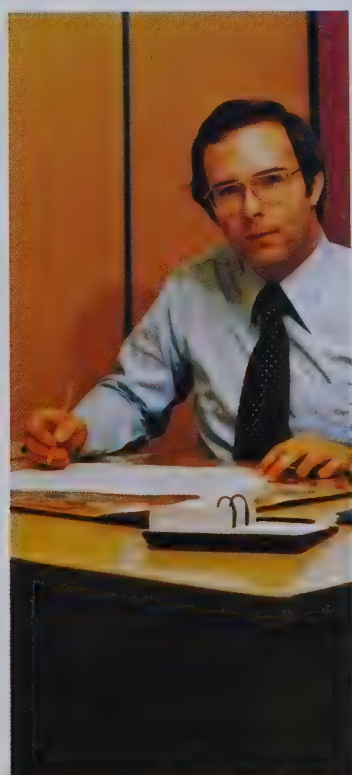
Vital computing services for all Domtar operating companies are provided by Corporate EDP's Central Computing department, represented here (left to right) by operators Clement Evans, Paul Surprenant and Gary Black.

At 45, Raymond Pinard is Vice-President and General Manager of Domtar Newsprint Limited and Vice-President of Domtar Pulp Limited. His entire business career has been with Domtar and one of its predecessor companies, St. Lawrence Corporation Limited, which he joined as a process engineer in 1955.

Mike Striliski (left), supervisor of production planning at the St. Catharines, Ontario, fine papers mill is seen at a city council meeting in the neighbouring town of Thorold, of which he is an alderman and where he has a fine record of municipal experience and civic involvement. Mike is typical of the Domtar employees who participate in community affairs in the many locations where the Company has operations.

Larry Bredin, flexographic press operator in the Packaging company's corrugated containers plant at Leaside, Ontario, checking production quality.

The Company's reputation as one of Canada's leading paper producers is maintained thanks to the work of such men as Joseph Montpetit (left) and Walter Dube, sheeter operators at the Beauharnois, Quebec, fine papers mill.



After he graduated in business administration in 1972 and joined the Company, Ross Barrett's first assignment was on the Newsprint company's sales order desk. Now a marketing analyst in the Packaging company, he has already had several assignments in different parts of the business and is one of the many university graduates attracted to Domtar because of the scope, challenge and growth possibilities it provides.

Consolidated Statement of Earnings and Retained Earnings

for the year ended December 31

	1975	1974
Sales and other revenues:		
Sales	$815,221,364	$897,652,232
Investment and sundry income	8,106,321	9,043,772
Gain on disposal of fixed assets	3,751,146	—
	827,078,831	906,696,004
Costs and expenses:		
Cost of sales and selling and administrative expenses	725,548,977	720,276,314
Depreciation	31,695,409	30,682,964
Interest on funded debt	8,624,201	6,666,621
Interest on other indebtedness	913,330	614,420
	766,781,917	758,240,319
Earnings before income taxes and minority interest	60,296,914	148,455,685
Current income taxes	11,930,000	55,575,000
Deferred income taxes	11,970,000	8,887,000
Minority interest	1,109,400	1,514,338
	25,009,400	65,976,338
Net earnings	35,287,514	82,479,347
Retained earnings at beginning of year	182,362,092	124,154,166
	217,649,606	206,633,513
Dividends:		
Preference shares, $1 per share	535,191	547,741
Common shares, $1.60 per share	23,723,680	23,723,680
	24,258,871	24,271,421
Retained earnings at end of year	$193,390,735	$182,362,092
Earnings per common share	$2.34	$5.53

See accompanying notes to financial statements

Consolidated Statement of Changes in Financial Position

for the year ended December 31

	1975	1974
Source of funds:		
Net earnings	**$ 35,287,514**	$ 82,479,347
Gain on disposal of fixed assets	**3,751,146**	—
	31,536,368	82,479,347
Depreciation	**31,695,409**	30,682,964
Deferred income taxes	**11,970,000**	8,887,000
Minority interest	**1,109,400**	1,514,338
Cash flow from operations	**76,311,177**	123,563,649
Issue of funded debt	**49,006,205**	—
Sale of investments	**10,354,287**	8,601,682
Disposal of fixed assets	**3,869,109**	—
	139,540,778	132,165,331
Application of funds:		
Fixed assets	**56,932,267**	72,384,356
Funded debt	**7,986,000**	7,066,000
Minority interest	**1,122,161**	1,952,815
Investments and advances	**5,556,993**	1,147,190
Dividends on preference shares	**535,191**	547,741
Dividends on common shares	**23,723,680**	23,723,680
Purchase of subsidiary company, less working capital at acquisition	**—**	1,448,209
Par value of preference shares purchased	**—**	849,642
	95,856,292	109,119,633
Increase in working capital	**43,684,486**	23,045,698
Working capital at beginning of year	**175,508,153**	152,462,455
Working capital at end of year	**$219,192,639**	$175,508,153
Changes in components of working capital:		
Receivables	**$ (18,594,117)**	$ 18,804,052
Inventories	**(7,204,908)**	59,105,217
Prepaid expenses	**(130,778)**	249,212
Payables	**(7,099,455)**	(27,996,799)
	(33,029,258)	50,161,682
Income and other taxes	**35,843,310**	(21,616,891)
Dividends payable	**7,270**	2,248,852
Net cash	**40,863,164**	(7,747,945)
Increase in working capital	**$ 43,684,486**	$ 23,045,698

See accompanying notes to financial statements

Domtar Limited
and Subsidiary Companies

Consolidated Balance Sheet

December 31

Assets

	1975	1974
Current assets:		
Cash and short-term investments, at cost (approximates market value)	**$ 86,780,262**	$ 58,027,517
Receivables	**112,058,539**	130,652,656
Inventories	**140,265,808**	147,470,716
Prepaid expenses	**2,661,706**	2,792,484
	341,766,315	338,943,373
Investments and advances:		
Listed securities	**3,453,801**	4,718,287
Other investments and advances	**10,849,181**	14,381,989
	14,302,982	19,100,276
Fixed assets:		
Plant, machinery and facilities	**743,466,245**	693,994,246
Timber limits and land	**28,447,942**	27,661,997
	771,914,187	721,656,243
Less: Accumulated depreciation	**407,608,849**	382,469,800
	364,305,338	339,186,443
Unamortized debt discount and expenses	**993,795**	—
	$721,368,430	$697,230,092

APPROVED BY THE BOARD:

A. D. Hamilton, Director

M. C. G. Meighen, Director

Liabilities

	1975	1974
Current liabilities:		
Bank indebtedness	**$ 7,802,141**	$ 19,912,560
Payables	**102,427,812**	95,328,357
Income and other taxes	**6,168,656**	42,011,966
Dividends payable	**6,175,067**	6,182,337
	122,573,676	163,435,220
Funded debt	**150,101,000**	108,087,000
Deferred income taxes	**97,747,000**	85,777,000
Minority interest	**12,235,208**	12,247,969
Shareholders' equity:		
Capital stock –		
$1 cumulative redeemable preference shares,		
par value $23.50, redeemable at $25.		
Authorized – 542,445 shares		
Outstanding – 535,191 shares	**12,576,989**	12,576,989
Common shares without nominal or par value		
Authorized – 25,000,000 shares		
Outstanding – 14,827,300 shares	**132,743,822**	132,743,822
Retained earnings	**193,390,735**	182,362,092
	338,711,546	327,682,903
	$721,368,430	$697,230,092

See accompanying notes to financial statements

Summary of Significant Accounting Policies

December 31, 1975

The company follows the generally accepted accounting principles described below. These, together with the notes which follow, should be considered an integral part of the consolidated financial statements.

Principles of consolidation:

The accompanying financial statements include the accounts of Domtar Limited and all its subsidiary companies.

Translation of foreign currencies:

Current assets and current liabilities in foreign currencies are translated into Canadian dollars at current rates of exchange at December 31, 1975 or at rates related to forward exchange contracts. Fixed assets and related depreciation and other long-term assets and liabilities are translated at rates of exchange in effect at the dates of the transactions. Items affecting net earnings (other than depreciation) are translated at the average rates for the year.

Valuation of inventories:

Inventories of pulpwood, raw materials and operating and maintenance supplies are valued at the lower of cost and replacement cost. Finished goods, including work in process, are valued at the lower of cost and net realizable value.

Fixed assets and depreciation:

Fixed assets are recorded at cost. The cost and related accumulated depreciation of items retired or disposed of are removed from the books and any gains or losses are included in the consolidated statement of earnings. Depreciation is provided on the straight line method using rates based on the estimated useful lives of the assets generally as follows:

Production machinery	12 – 16 years
Logging equipment	Up to 6 years
Automobiles	4 years
Buildings	Up to 40 years

Repairs and maintenance are charged against earnings as incurred.

Income taxes:

The company provides for income taxes on the tax allocation basis. The company follows the flow through method of accounting for the 5% federal investment tax credit. The provision for deferred income taxes in the accompanying financial statements mainly arises as a result of depreciation being claimed for income tax purposes in excess of amounts of depreciation recorded for financial statement purposes.

Notes to Consolidated Financial Statements

December 31, 1975

1. Inventories:

	1975	1974
Logs and pulp chips	$ 24,393,487	$ 23,011,517
Raw materials and operating and maintenance supplies	56,502,321	67,345,199
Finished goods including work in process	59,370,000	57,114,000
	$140,265,808	$147,470,716

2. Investments and advances:

	1975	1974
Listed securities, at cost, quoted value $3,700,750 (1974 – at cost less writedown to quoted values)	$ 3,453,801	$ 4,718,287
Other investments and advances, at cost:		
Secured loans to the Trustees for employees under the company's stock purchase plan	$ 326,823	$ 604,090
Municipal bonds	160,000	6,113,000
Loans, mortgages and debentures	7,987,206	6,532,824
Shares	2,375,152	1,132,075
	$ 10,849,181	$ 14,381,989

3. Fixed assets:

	Cost	Accumulated depreciation	Net book value
		(millions of dollars)	
December 31, 1975 –			
Plant, machinery and facilities –			
Pulp and paper	$520.9	$269.6	$251.3
Construction materials	106.0	64.8	41.2
Chemicals	107.7	63.5	44.2
Other	8.9	4.7	4.2
Timber limits and land	28.4	5.0	23.4
	$771.9	$407.6	$364.3
December 31, 1974 –			
Plant, machinery and facilities –			
Pulp and paper	$493.8	$249.7	$244.1
Construction materials	94.7	64.4	30.3
Chemicals	99.8	58.6	41.2
Other	5.7	4.9	.8
Timber limits and land	27.7	4.9	22.8
	$721.7	$382.5	$339.2

Notes (continued)

4. Funded debt:

	Maturity	1975	1974
Domtar Limited –			
Sinking fund debentures –			
5¼ % Series "A"	1978	**$ 8,190,000**	$ 10,000,000
6¼ % Series "B"	1980	**4,741,000**	6,225,000
5½ % Series "C"	1982	**8,845,000**	10,400,000
5¾ % Series "D"	1984	**11,081,000**	12,800,000
5⅝ % Series "E"	1990	**29,411,000**	32,200,000
6¾ % Series "F"	1987	**32,166,000**	35,000,000
11% Series "G"	1995	**50,000,000**	—
St. Lawrence Corporation Limited –			
First mortgage sinking fund bonds – 5% Series "C"	1978	**3,792,000**	4,772,000
Sinking fund debentures – 6¾ % Series "A"	1980	**6,711,000**	9,200,000
		154,937,000	120,597,000
Less: Held for sinking fund		**4,836,000**	12,510,000
		$150,101,000	$108,087,000

Approximate instalments due in each of the next five years:
1976 – Nil 1977 – $3,735,000 1978 – $15,641,000
1979 – $6,275,000 1980 – $11,050,000

5. Minority interest:

	1975	1974
Preferred shares of subsidiary company – St. Lawrence Corporation Limited – 75,225 5% preferred shares of $100 each, redeemable at $101 (after purchase for cancellation during the year of 4,163 shares)	**$ 7,522,500**	$ 7,938,800
Common share equity in subsidiary companies	**4,712,708**	4,309,169
	$ 12,235,208	$ 12,247,969

6. Pension plans:

The company and its subsidiaries have pension plans for their employees. The cost charged against earnings in 1975 was $7,508,060 (1974 – $11,162,000). The liability for benefits in respect of past service remaining to be charged to operations approximated $27,087,000 at December 31, 1975. This cost will be charged to earnings over the next fifteen years.

7. Information on directors and officers:

	Number		Remuneration	
	1975	1974	**1975**	1974
Directors	**14**	17	**$ 95,008**	$ 104,358
Officers	**24**	26	**1,568,338**	1,329,989
Officers who are also directors	**2**	2		

8. Sales by class of business:

	1975	1974
	(millions of dollars)	
Pulp and paper products	**$508.9**	$622.9
Construction materials	**160.1**	144.1
Chemicals	**146.2**	130.7
	$815.2	$897.7

9. Commitments and contingent liabilities:

The company and its subsidiaries are contingently liable for $14,300,000 (1974 – $10,100,000) as guarantor of obligations of other companies and CMHC mortgages on employee homes.

Of the 1976 capital expenditure program the company is committed for approximately $19,000,000 (1974 – $26,000,000).

There are outstanding lawsuits and claims against the company for $4,000,000. The company does not consider that the outcome of such lawsuits and claims will have a material adverse effect on the company and its subsidiaries.

10. The Companies Act of British Columbia:

These financial statements comply with the disclosure requirements of the act of incorporation (The Canada Corporations Act) and the securities legislation of certain provinces in Canada, but do not purport to comply with all disclosure requirements of the Companies Act of British Columbia.

11. Reclassification:

Certain 1974 figures on the consolidated balance sheet have been reclassified for purposes of comparison.

Auditors' Report

To the Shareholders of
Domtar Limited:

We have examined the consolidated balance sheet of Domtar Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

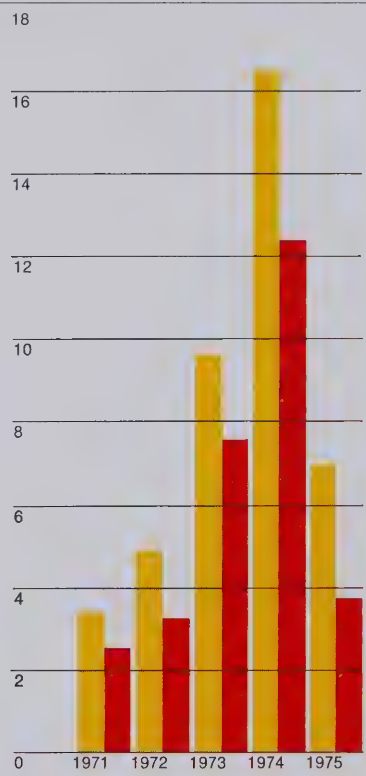
Montreal, January 30, 1976

Inflation Accounting – General Price Level Concept

Percentage return after taxes on capital employed 1971-1975
(Percent)

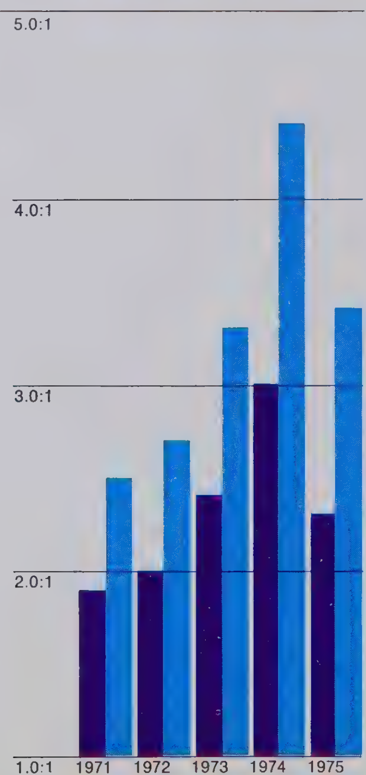
Net Earnings (before extraordinary items) plus funded debt interest after taxes, and minority interest, as a percentage of capital employed.

Historical Dollars
Current Dollars



Equity/debt position
(Ratio)

Historical Dollars
Current Dollars



The summary report of Domtar's 1975 results and capital employed adjusted for the effect of inflation is based on the general price level concept. This concept accepts the original historical cost base but restates the dollars into a constant unit of measure — the current purchasing power of the dollar. The deficiency of this concept relates to the use of a single measure of the change in value of the monetary unit, for example, the Consumer Price Index. For most management purposes, unless specific prices relating to a business have moved in an identical fashion, the measures of purchasing power do not provide sufficiently precise information. Despite these weaknesses, there is a positive benefit in the use of the general price level concept as it recognizes in part the effect of changing prices and to that extent is considered a useful first step to reflect more accurately the impact of inflation on the financial position of a company.

To overcome the drawback of using a single index to measure the impact of inflation on a company's assets, it is necessary to develop specific indices which will recognize the current value to the company of the capital employed in its business. Domtar is experimenting with the use of available indices but there is a need for development of more specific information.

The Company is also working closely with the Canadian Pulp and Paper Association to further research this subject. While efforts are being made to develop current or replacement values for the non-monetary assets employed in a business, a consensus on the concept has not yet been reached within the accounting profession which is also engaged in active research on this subject throughout the world. The present concept of current value accounting is unsatisfactory in that it completely ignores the impact of inflation on monetary assets and liabilities.

The major items which adversely affected 1975 net earnings are the inflation adjustments to the value of opening inventories and to the depreciation charge as a result of increasing the value of the fixed assets. The principal items which benefit earnings are the gains resulting from the decrease in the value of the Company's long term debt and deferred income taxes.

The application of price level accounting concepts had the effect of reducing 1975 earnings per common share from $2.34 to $1.47. 1974 price level earnings, adjusted to 1975 dollars, amounted to $5.82 compared with 1974 historical earnings of $5.53. The greater impact of inflation on 1975 earnings is due to the larger effect of inventories and depreciation on the greatly reduced 1975 reported earnings.

At the end of 1975, Domtar's net fixed assets under price level accounting are stated at $541 million, an increase of $176 million over the values determined under the historical cost concept. This $176 million is an additional amount on which depreciation must be charged against future years' price level earnings.

A major impact of the application of price level accounting is the reduction in the return on shareholders' equity from 10.7% and 26% for 1975 and 1974 respectively to 4.3% and 17% under price level accounting.

Summary of Results and Capital Employed Adjusted for the Effects of Inflation

(Thousands of dollars)

	Current Dollar Basis 1975	Current Dollar Basis 1974 (Updated to 1975 dollars)	Historical Dollar Basis 1975	Historical Dollar Basis 1974
Results for the year:				
Earnings before income taxes and minority interest	**$ 48,455**	$161,825	**$ 60,297**	$148,455
Income taxes	**24,949**	74,383	**23,900**	64,462
Minority interest	**1,158**	1,747	**1,109**	1,514
Net earnings (see Note)	**$ 22,348**	$ 85,695	**$ 35,288**	$ 82,479
Capital Employed at end of year:				
Working capital	**$220,146**	$193,189	**$219,193**	$175,508
Investments and advances	**14,303**	20,464	**14,303**	19,100
Fixed assets less depreciation	**540,749**	531,831	**364,305**	339,186
Unamortized debt discount and expenses	**1,016**	—	**994**	—
Capital Employed	**776,214**	745,484	**598,795**	533,794
Less:				
Funded debt	**150,101**	118,338	**150,101**	108,087
Deferred income taxes	**97,747**	93,912	**97,747**	85,777
Preference shares and minority interest	**24,812**	26,771	**24,812**	24,825
Common Share Equity	**$503,554**	$506,463	**$326,135**	$315,105
Earnings per common share	**$1.47**	$5.82	**$2.34**	$5.53
Return on capital employed	**3.7%**	12.3%	**6.9%**	16.4%
Return on common share equity	**4.3%**	17.0%	**10.7%**	26.0%

Note:

Net earnings

The following is a summary of adjustments required to restate net earnings from a historical to a current dollar basis:

	1975	1974
NET EARNINGS (HISTORICAL DOLLAR BASIS)	**$ 35,288**	$ 82,479
Adjustments to convert to current dollars:		
INVENTORY — Additional charge restating the cost of inventory at the beginning and end of year in current dollars.	**(14,026)**	(10,521)
DEPRECIATION — Additional depreciation based on asset costs measured in current dollars.	**(18,172)**	(15,669)
MONETARY ITEMS — Gain resulting from the decline in the dollar value due to the effect of inflation on the long term debt and other monetary liabilities less the loss incurred on monetary assets.	**16,931**	19,030
SALES, PURCHASES AND ALL OTHER COSTS — Gain due to the price level changes which have occurred during the year.	**2,327**	2,953
	22,348	78,272
Amount required to update last year's net earnings from general purchasing power at the end of 1974 to current general purchasing power at the end of 1975.	**—**	7,423
NET EARNINGS (CURRENT DOLLAR BASIS)	**$ 22,348**	$ 85,695

Historical Review

Financial

	1975	1974	1973	1972	1971
			(millions of dollars)		
Net fixed assets	**364.3**	339.2	294.8	295.8	299.7
Working capital	**219.2**	175.5	152.4	130.2	124.2
Investments and advances	**14.3**	19.1	26.4	26.4	25.2
Unamortized debt discount and expenses	**1.0**	—	—	—	—
Total net assets	**598.8**	533.8	473.6	452.4	449.1
Represented by:					
Funded debt	**150.1**	108.1	115.2	123.0	127.1
Deferred income taxes	**97.8**	85.8	76.5	71.3	67.5
Minority interest	**12.2**	12.2	11.6	12.4	12.7
Shareholders' equity	**338.7**	327.7	270.3	245.7	241.8
	598.8	533.8	473.6	452.4	449.1
Sales and other revenues:					
Pulp and paper	**508.9**	622.9	442.0	364.5	338.5
Chemicals	**146.2**	130.7	91.7	85.4	80.2
Construction materials	**160.1**	144.1	122.1	110.9	97.7
Other revenues	**11.9**	9.0	6.3	1.4	3.0
	827.1	906.7	662.1	562.2	519.4
Earnings before income taxes	**59.2**	147.0	67.2	31.0	19.5
Current income taxes	**11.9**	55.6	21.4	8.3	4.6
Deferred income taxes	**12.0**	8.9	5.2	5.3	4.4
Net earnings	**35.3**	82.5	40.6	17.4*	10.5*
Cash flow from operations	**76.3**	123.6	73.7	50.4	41.8
Expenditures on fixed assets	**56.9**	72.4	42.1	28.5	23.7
			$ per common share		
Earnings	**2.34**	5.53	2.70	1.14*	0.67*
Dividends	**1.60**	1.60	1.00	0.60	0.60
Cash flow	**5.11**	8.30	4.93	3.36	2.78
Book value	**22.00**	21.25	17.33	15.63	15.37

*Before deducting extraordinary items of $4.1 million ($0.28 per common share) in 1972 – $8.7 million ($0.59 per common share) in 1971.

Pulp and paper production (tons)					
Newsprint	**234,106**	311,996	354,020	380,749	467,791
Kraft paper and board	**300,219**	453,990	449,690	433,664	420,878
Fine and specialty papers	**265,858**	372,587	384,012	328,495	321,803
Market pulp	**160,648**	253,078	234,357	265,600	223,300
	960,831	1,391,651	1,422,079	1,408,508	1,433,772

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